

BEFORE THE
DELAWARE PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

DAVID J. WATHEN

February 2016

SUEZ WATER DELAWARE INC.
DIRECT TESTIMONY OF DAVID J. WATHEN

1 **Introduction**

2 **Q. Please state your name and your business address.**

3 A. My name is David J. Wathen. My business address is 3500 Lenox Road,
4 Suite 900, Atlanta, GA 30326.

5

6 **Q. By who are you employed?**

7 A. I have been employed by Willis Towers Watson since 1996 and my
8 position is Director, Southeast Talent & Rewards Practice Leader. I also
9 currently serve as the leader of the firm's utility industry compensation
10 practice. Willis Towers Watson has 39,000 employees in more than 120
11 countries. We design and deliver solutions that manage risk, optimize
12 benefits, cultivate talent and expand the power of capital to protect and
13 strengthen institutions and individuals.

14

15 **Q. Please explain the business of Willis Towers Watson in providing**
16 **compensation services.**

17 A. Willis Towers Watson advises organizations throughout the globe on all
18 aspects of their compensation programs with the goal of paying people
19 appropriately and enabling organizations to attract, retain and motivate
20 employees efficiently and cost-effectively. Typical areas of compensation
21 consulting assistance include pay philosophy development, variable or at-
22 risk compensation plan design, total compensation benchmarking, pay
23 structure development, etc.

24 **Q. Why do companies such as SUEZ Water Delaware ("SWDE") retain**
25 **consulting firms such as Willis Towers Watson for compensation**
26 **services?**

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1 A. Companies retain the services of independent compensation consultants
2 such as Willis Towers Watson because they need access to the expertise
3 and resources that independent firms have to offer regarding current, and
4 emerging market practices, compensation program design and market
5 competitiveness. Willis Towers Watson has extensive experience serving
6 clients in the utility industry, having served more than 100 utilities just in
7 2015. Because we invest heavily in our utility and energy services
8 industry capabilities, we have rich competitive industry information that
9 enables SWDE to benchmark against utility companies in the U.S. Given
10 Willis Towers Watson's breadth and depth of resources, we are frequently
11 engaged by companies to conduct competitive assessments of their total
12 compensation programs including compensation levels by position, at-risk
13 compensation plan design, pay structures and other compensation
14 consulting services.

15
16 **Q. SWDE has offered you as an expert witness on utility compensation**
17 **programs. What qualifications do you have to testify as an expert on**
18 **utility compensation programs?**

19 A. In my 19 year career with Willis Towers Watson, I have assisted
20 management and Boards of Directors at numerous utility companies in
21 designing and assessing all aspects of their compensation programs.
22 Since joining the firm in 1996, I have consulted with numerous utilities
23 across the U.S. and currently serve as the leader of the firm's utility
24 industry compensation practice. I have conducted competitive
25 assessments of total compensation levels and at-risk compensation plans

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1 for numerous utilities and currently provide compensation consulting
2 services to several utility clients located across the U.S.

3
4 In addition, I have filed testimony in other regulatory proceedings in
5 several jurisdictions, including: Florida, Illinois, Indiana, Kentucky, New
6 Jersey and Wisconsin on the subject of utility compensation. See Exhibit
7 1 for listing of regulatory proceedings where testimony has been filed.

8
9 **Q. What are your current responsibilities at Willis Towers Watson?**

10 **A.** As the leader of the utility industry compensation practice I oversee a
11 team of 10 professionals, consisting of analysts and consultants. My key
12 areas of responsibility include:

- 13 • Managing, supporting and executing compensation projects for
14 utility clients, projects entail assisting management and/or Boards
15 of Directors in managing all aspects of their compensation
16 programs regarding all employee levels,
- 17 • Oversee intellectual capital development focused on utility industry
18 compensation trends and market best practices, and
- 19 • Facilitate forums and roundtables for utility clients that enable the
20 sharing and discussion of key issues and topics.

21 I also manage Willis Towers Watson's compensation, talent management,
22 change management and communications consulting practices in the
23 Southeast, which includes over 40 professional and administrative staff.
24 My key areas of responsibility include:

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- 1 • Managing, supporting and executing compensation projects and
- 2 business development initiatives to work with current clients and
- 3 expand existing relationships,
- 4 • Integrating and building our consulting team resources into a more
- 5 effective client service delivery team,
- 6 • Overseeing all aspects of local delivery of Willis Towers Watson
- 7 products and services for the Southeast Talent & Rewards practice.

8 In addition to my leadership and consulting responsibilities, I have been a
9 guest speaker on compensation to professional and academic
10 organizations including the Atlanta Area Compensation Association,
11 Emory University, National Association of Stock Plan Professionals,
12 Society of Corporate Secretaries and Governance Professionals, and
13 Vanderbilt University.

14
15 **Q. Please share your educational background.**

16 A. I graduated from Vanderbilt University in 1990 with a B.A. in Economics
17 and earned an M.B.A. with an emphasis in Human Resources from The
18 Owen Graduate School of Management at Vanderbilt University in 1996.

19
20 **Purpose of Testimony**

21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. The purpose of my testimony is to demonstrate that the target total cash
23 compensation provided to SWDE employees is reasonable and
24 competitive relative to the Company's markets for talent for similar
25 positions. The competitive markets for talent and subsequently
26 competitive compensation, reflected both general and utility industry

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1 companies depending on the specific SWDE position. From a short-term
2 at-risk compensation plan design perspective, the competitive market for
3 comparison was defined as regulated utilities. Willis Towers Watson
4 specifically focused on the following aspects of SWDE's compensation
5 program:

- 6 • Competitive market positioning of target total cash compensation
7 (defined as base salary plus target short-term at-risk compensation
8 opportunity); and
- 9 • Competitiveness of SWDE's short-term at risk compensation plan
10 design (variable, annual compensation plan that supports SWDE's
11 business objectives; provides cash awards to employees that
12 deliver outstanding achievement against defined qualitative and
13 quantitative performance goals).

14
15 **Q. Have Willis Towers Watson and you performed similar analyses in**
16 **the past?**

17 **A.** Yes. Willis Towers Watson and I have conducted similar competitive
18 compensation studies for many other utility clients.

19
20 **Willis Towers Watson Analysis Findings**

21 **Q. What are the conclusions of your analysis?**

22 **A.** Overall, our analysis indicates that SWDE's target total cash
23 compensation levels, on average, fall below the market median (50th
24 percentile) and that short-term at-risk compensation design, as part of its
25 total compensation package, is generally competitive with peer market
26 practices. The ability of SWDE or any company to provide market

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1 competitive compensation is critical in order to attract, retain and motivate
2 the talent needed to successfully run the company and deliver high
3 quality, cost effective services to customers.

4 Target Total Cash Compensation Competitive Market Positioning

5 Willis Towers Watson assessed the competitiveness of target total cash
6 compensation levels relative to the market 50th percentile of the applicable
7 market for talent. To conduct this analysis we reviewed data provided to
8 us by SWDE and examined published general and utility/energy services
9 industry compensation surveys available to Willis Towers Watson,
10 including our proprietary 2015 Energy Services (includes over 65 utility
11 participants) and General Industry Compensation surveys, reflecting over
12 110 and 460 survey participants, respectively. Willis Towers Watson or its
13 predecessors have been conducting these surveys for over 20 years.

14
15 In conducting our competitive assessment of target total cash
16 compensation, Willis Towers Watson examined 27 positions, covering 45
17 employees or approximately 66% of the SWDE workforce. The 27
18 positions selected for the analysis reflected positions that are common
19 across comparable organizations and for which compensation data are
20 readily available from published compensation surveys. When
21 determining the competitiveness of pay relative to the market, Willis
22 Towers Watson defines a position as being competitive or "at market" if it
23 is within +/-10% variance of the market for non-executive positions and +/-
24 15% variance for executive positions. Variances within this range are
25 often explained by different experience levels and tenure of the
26 incumbents.

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Overall, our analysis indicates that SWDE's compensation falls below the competitive market range for base salary and target total cash compensation for most employee groups that were reviewed (See Table 1). When the competitive position of SWDE pay is examined across all employee groups, covering the 27 positions included in our analysis, on average, base salaries are 18.5% below the market median and target total cash compensation is 20.3% below the market median. See the table below for a summary of the variance of SWDE compensation versus the market median (50th percentile). Details of the competitive market analysis are included in **Attachment 1**.

Table 1: Competitive Target Total Cash Compensation Market Position by SWDE Employee Group

SWDE Representative Sample			Variance: SWDE Employees vs. Market Median	
Employee Group	Benchmark Employees	% of Sample	Base Salary Market Median	Target Total Cash Compensation Market Median
Executive	10	22%	-11.7%	-18.4%
Management	8	18%	-16.5%	-16.0%
Professional	2	4%	-2.6%	0.5%
Support	25	56%	-23.1%	-24.4%
Total	45		-18.5%	-20.3%

We would also note that when the short-term at-risk component of SWDE's compensation program is eliminated with no adjustment to base salary to make up for the lost at-risk compensation, the competitive target

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total cash compensation market positioning for all employee groups falls well below the competitive market range (See Table 2).

Table 2: Competitive Target Total Cash Compensation Market Position by SWDE Employee Group – SWDE Short-Term At-Risk Compensation Component Excluded

SWDE Representative Sample			Variance: SWDE Employees vs. Market Median	
Employee Group	Benchmark Employees	% of Sample	Base Salary Market Median	Target Total Cash Compensation Market Median
Executive	10	22%	-11.7%	-34.9%
Management	8	18%	-16.5%	-23.3%
Professional	2	4%	-2.6%	-10.6%
Support	25	56%	-23.1%	-25.6%
Total	45		-18.5%	-26.7%

Short-Term At-Risk Compensation Program Design

Willis Towers Watson reviewed the competitiveness of SUEZ North America's short-term at-risk compensation program design, which is the same plan design that applies to SWDE. To assess the competitiveness of SWDE's plan design relative to market practice, our primary market data source was current proxy disclosures for a Large Utility Peer Group and Small Utility Peer Group, as plan design data is available in public filings for these peer companies. The Large Utility Peer Group consisted

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1 of 11 publicly-traded, regulated utilities with revenues comparable in size
2 to SUEZ North America. Given comparably-sized subsidiary utilities like
3 SWDE do not typically disclose their short-term at-risk compensation
4 program data, we examined a peer group of 7 publicly-traded, regulated
5 utilities with revenues below \$125 million.

6
7 Like SWDE, all of the Large Utility Peer Group and all but 2 of the Small
8 Utility Peer Group have short-term at-risk compensation programs as part
9 of their competitive pay mix. Overall, our analysis indicates SWDE's
10 short-term at-risk compensation program is comparable to and competitive
11 with designs of utility peers with one exception. We note that SWDE's
12 plan design applies a greater performance weighting (typically 50%
13 weighting) to the individual or personal performance objective component
14 of the plan design. This plan design difference is intentional as SWDE
15 wants to emphasize the individual goals to place greater focus on
16 performance measures that employees have the greatest "line of sight" to
17 (i.e., more direct ability to influence). These individual or personal
18 objectives for many plan participants include operational or customer
19 focused measures. Details of the competitive analysis of SWDE's short-
20 term at-risk compensation program are presented in **Attachment 1**.

21
22 **Conclusions**

23 **Q. What are the conclusions of your analysis?**

24 A. Overall, our analysis indicates that SWDE's pay vehicles, reflecting base
25 salary and short-term at-risk compensation, are comparable to utility
26 peers. In turn, the design of the short-term at-risk compensation plan is

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1 comparable to designs of utility peers, but target total cash compensation
2 levels generally fall below the market 50th percentile. Given the markets
3 where SWDE competes for talent, it is essential for the company to
4 provide competitive target total cash compensation in order to attract,
5 motivate and retain the critical talent needed to successfully run the
6 company. In my experience working with other utilities and general
7 industry companies, the target total cash compensation levels at SWDE
8 fall below competitive levels, while the short-term at-risk compensation
9 plan design is reasonable and well within competitive market norms.
10

11 **Q. Why is the “Pay at Risk” concept appropriate for a utility company?**

12 A. First, as our competitive analysis shows the inclusion of a pay at risk
13 program or in SWDE’s case, a short-term at-risk compensation plan is an
14 essential part of a market competitive pay mix. As noted earlier in my
15 testimony, almost all of the utility peers we examined have a short-term at-
16 risk compensation plan in place. In order to attract, retain and motivate
17 talent needed to successfully run the company, SWDE needs to provide a
18 market competitive compensation program, which includes a short-term
19 at-risk compensation program.
20

21 Second, utilities like SWDE maintain short-term at-risk compensation
22 plans in order to award plan participants for achievement of short-term
23 business goals. Like the SWDE plan, short-term at-risk plans typically
24 provide a variable reward tied to achievement of pre-defined performance
25 goals. Pay is “at-risk” in that no award will be paid if the defined threshold

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1 levels of performance are not achieved, but awards can also be earned for
2 achieving outstanding performance.

3
4 **Q. Describe the benefits of the Company's program in comparison to a**
5 **salary/wage only method.**

6 A. A key benefit of SWDE's current target total cash compensation program
7 is that short-term at-risk compensation plans are a common component in
8 most utility compensation programs and essential for providing market
9 competitive pay levels.

10 A shift to an all base salary program for SWDE could have unintended
11 consequences. If all or part of the short-term at-risk compensation at
12 SWDE were eliminated, the Company could look to increase fixed pay
13 (i.e., base salary) to above market competitive levels in order to attract
14 and retain talent. This would be counter to the pay-for-performance
15 approach SWDE currently employs, which is to put short-term
16 compensation "at-risk". A short-term at-risk compensation plan allows
17 SWDE to differentiate pay based on performance and allocate
18 compensation to those employees that are most deserving.

19
20 **Q. Does this conclude your testimony?**

21 A. Yes.

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Docket No.
SUEZ WATER DELAWARE
Witness: David J. Wathen
Exhibit No. 1
Schedule 1
Page 1 of 1

David J. Wathen Filed Testimony in Regulatory Proceedings

Utility	Docket Number	State
Gulf Power Company	1101238-EI	Florida
Commonwealth Edison Company	14-0312	Illinois
Citizens Energy Group	44462	Indiana
Wisconsin Public Service Corporation	6690-UR-123	Wisconsin
Louisville Gas & Electric	2014-00372	Kentucky
Kentucky Utilities	2014-00371	Kentucky
SUEZ Water New Jersey	WR15101177	New Jersey

2016 General Rate Case Target Total Cash Compensation Study
Suez Water Delaware

February 2016

Suez Water Delaware – 2016 General Rate Case Target Total Cash Compensation Study

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Suez Water Delaware – 2016 General Rate Case Target Total Cash Compensation Study

INTRODUCTION

Suez Water Delaware (Suez Water Delaware or SWDE) asked Willis Towers Watson to review the competitiveness of target total cash compensation levels and the short-term at-risk compensation plan design relative to market practices. Specifically, SWDE wants to ensure current pay levels, pay mix and the Short Term Incentive Plan design are competitive with market and enable the company the ability to attract, retain and motivate employees to successfully run the company to deliver high quality, cost effective services to customers.

SWDE's target total cash compensation program consists of base salary and a short-term at-risk compensation program, which is consistent with the programs used by a majority of investor owned utilities and publicly-traded general industry companies in the marketplace.

In performing this review, Willis Towers Watson analyzed the following for SWDE:

- Competitive market positioning of target total cash compensation (base salary and target short-term at-risk compensation) across a broad sample of SWDE employee positions
- Parent company's (Suez North America's) short-term at-risk compensation program design, which applies to SWDE

Key Findings

Based on our review, we find:

- Competitiveness of target total cash compensation: SWDE's use of base salary and short-term at-risk compensation as its primary pay vehicles for employees is consistent and aligned with market pay vehicles used by utility peers. When compared to available published survey data, SWDE's compensation levels are positioned below the competitive range of the market 50th percentile for base salary and target total cash compensation (Target TCC = base salary + target short-term at-risk compensation)
- Short-term at-risk compensation program design: SWDE's strategy to provide short-term at-risk compensation is consistent with the majority of the publicly-traded utility peers examined. While the specific design elements of at-risk compensation programs may differ among utility peers, we find the Company's short-term at-risk compensation program design to be comparable to the designs of utility peers. The only major design difference is the SWDE plan design places greater emphasis or weighting on individual or personal objectives. This design difference is intentional as the Company wants to emphasize measures that employees have greater "line of sight" to (i.e., more direct ability to influence), such as operational or customer focused measures

Summary Conclusion: Based upon our review, we find SWDE's overall compensation levels are positioned below market while the short-term at-risk compensation design is comparable to and competitive with the multiple market perspectives we examined.

Competitive Market Positioning

Overview: Willis Towers Watson assessed the competitiveness of target total cash compensation provided by SWDE to a broad sample of the employee population based on a selection of SWDE jobs (“benchmark jobs”). Benchmark jobs are those positions that are common across comparable organizations and for which compensation data are available from published surveys.

SWDE’s current compensation levels were compared to the market 50th percentile (median) to determine the competitiveness of pay.

To conduct this analysis, we utilized the following Willis Towers Watson compensation surveys:

- 2015 Willis Towers Watson General Industry Executive Compensation Survey (465 participants)
- 2015 Willis Towers Watson General Industry Middle Management, Professional and Support Compensation Survey (560 participants)
- 2015 Willis Towers Watson Energy Services Executive Compensation Survey (113 participants)
- 2015 Willis Towers Watson Energy Services Middle Management, Professional and Support Compensation Survey (129 participants)

Willis Towers Watson has been conducting each survey for over 20 years, demonstrating the reliability and credibility of each survey source. Willis Towers Watson’s Energy Services surveys are an industry leading data source for competitive utility industry market data.

To determine the competitive market position, target total cash compensation levels for SWDE benchmark jobs were compared to target total cash compensation levels for similar positions at comparable employers, reflective of the applicable markets for talent. Willis Towers Watson included all energy services and general industry participants for each survey perspective examined.

Target total cash compensation is defined as base salary plus target short-term at-risk compensation. The target total cash compensation values and comparisons in the study were based on the following components of SWDE pay:

- Salary (reflects current base salaries for positions included in the study)
- Target short-term at-risk opportunity (2016 target opportunity defined as a percentage of base salary), as provided by SWDE.

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Competitive Market Positioning Findings (*Employee Weighted*)

When determining the competitiveness of pay relative to the market 50th percentile (median), Willis Towers Watson typically defines a position as being competitive or “at market” if it is within +/- 10% of the market for non-executive positions and +/-15% for executive positions. Based on these parameters and our competitive assessment, Willis Towers Watson concludes for Executive, Management, and Support employee groups, SWDE’s pay is below the competitive market range for base salary and target total cash compensation. The only employee group falling within the competitive market range of both pay elements is Professional, which is 2.6% below the market median base salary and approximates market median target total cash compensation. When the competitive position of SWDE pay is examined across all employee groups, covering the 45 employees included in our analysis, on average, base salaries are 18.5% below the market median and target total cash compensation is 20.3% below the market median. Table 1 below shows SWDE’s variance from the market median for base salary and target total cash compensation. All comparisons to market are employee weighted (i.e., each SWDE employee sampled is equally-weighted when compared to market).

Table 1: Competitive Target Total Cash Compensation Market Position by SWDE Employee Group

SWDE Representative Sample ¹			Variance: SWDE Employees vs. Market Median	
Employee Group	Benchmark Employees	% of Sample	Base Salary Market Median	Target Total Cash Compensation Market Median ²
Executive	10	22%	-11.7%	-18.4%
Management	8	18%	-16.5%	-16.0%
Professional	2	4%	-2.6%	0.5%
Support	25	56%	-23.1%	-24.4%
Total³	45		-18.5%	-20.3%

¹Includes broad sampling of Suez Water Delaware positions selected as benchmark jobs for inclusion in the study.

²Refer to Appendix C for definitions.

³Total variance calculations reflect a weighted average of Suez Water Delaware incumbents within each salary level and benchmark position.

We also examined the impact on SWDE’s competitive position to market if the short-term at-risk component was eliminated and no make up for the lost at-risk compensation was provided in base salary. This analysis entails comparing SWDE’s current base salaries to the market median target total cash compensation. Based on this comparison, we find that SWDE’s pay falls further below the market competitive range for target total cash compensation for all employee groups. (See Table 2 below for details).

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Table 2: Competitive Target Total Cash Compensation Market Position by SWDE Employee Group – SWDE Short-Term At-Risk Compensation Component Excluded

SWDE Representative Sample ¹			Variance: SWDE Employees vs. Market Median	
Employee Group	Benchmark Employees	% of Sample	Base Salary Market Median	Target Total Cash Compensation Market Median ²
Executive	10	22%	-11.7%	-34.9%
Management	8	18%	-16.5%	-23.3%
Professional	2	4%	-2.6%	-10.6%
Support	25	56%	-23.1%	-25.6%
Total³	45		-18.5%	-26.7%

¹Includes broad sampling of Suez Water Delaware positions selected as benchmark jobs for inclusion in the study.

²Refer to Appendix C for definitions.

³Total variance calculations reflect a weighted average of Suez Water Delaware incumbents within each salary level and benchmark position.

Study Coverage of Suez Water Delaware Population

This benchmarking study assesses the competitiveness of target total cash compensation levels for a robust sample of SWDE's employee population. We benchmarked ~66% of relevant incumbents. Based on our experience with similar projects, we consider coverage of greater than 60% of the population to represent a robust sample of incumbents against which to draw conclusions.

Short-Term At-Risk Compensation Program

Overview: Willis Towers Watson reviewed SWDE's short-term at-risk compensation program and compared its various design elements to market practice.

To assess how SWDE's short-term at risk compensation plan design compares to market practice, Willis Towers Watson reviewed current proxy disclosures for companies that fall within the two market perspectives outlined below. Proxy data was used as the primary source for assessing the competitiveness of SWDE's short-term at-risk compensation plan design as comparative market data is readily available.

- **Large Utility Peer Group** – 11 publicly-traded, regulated, comparably-sized utilities with revenues in a range of approximately ½ to 2 times the revenue of Suez North America, as provided by management (see Appendix A for the list of Large Utility Peer companies)
- **Small Utility Peer Group** – Since comparably-sized subsidiary utilities like SWDE do not generally disclose compensation program data, a peer group of 7 publicly-traded, regulated, comparably-sized utilities with revenues below \$125 million were used for comparison (see Appendix B for the list of Small Utility Peer companies)

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Short-term at-risk compensation programs are used by most investor owned utilities and publicly-traded general industry companies to help attract, motivate and retain critically skilled employees needed to successfully run the business. These programs focus employees primarily on short-term goals. Therefore, SWDE's strategy to provide short-term at-risk compensation is consistent with the market perspectives examined.

Below are the findings of Willis Tower Watson's assessment of SWDE's short-term at-risk compensation program design against the Large Utility Peer Group and Small Utility Peer Group. Companies design their short-term at-risk compensation programs to align with their business strategies and unique circumstances, so there tend to be a range of practices regarding how the programs are designed. SWDE's short-term program design is within the range of market practice for utility companies that we examined.

Short-Term At-Risk Compensation Program Elements

Overall, our review indicates SWDE's short-term at-risk compensation program is comparable to and competitive with designs of utility peers. Key design aspects are noted below:

- **Prevalence of Short-Term At-Risk Compensation Program** – Practically every company in each peer group, like SWDE, has a short-term at-risk compensation program as these programs are considered a critical component for focusing employees on defined short-term (i.e., annual) performance goals. Among peer companies, all Large Utility Peers provide a short-term at-risk compensation program while only 2 Small Utility Peers do not.
- **Eligibility** – At SWDE, all active employees are eligible to participate in the short-term at-risk compensation plan, which is consistent with typical utility market practice. By providing broad plan eligibility, SWDE ensures all employees are focused on achieving defined short-term performance goals.
- **Performance Measures** – SWDE's short-term at risk program assesses performance using multiple measures, incorporating both financial and personal objectives to determine the short-term at-risk compensation earned. The use of multiple performance measures reflecting financial, operational and individual measures is a common practice across both peer groups examined.
 - **Prevalence of Operational Metrics** – The majority of companies (93% of Large Utility Peers and 100% of Small Utility Peers) with short-term at-risk compensation programs use various forms of operational goals such as safety, customer satisfaction, reliability, regulatory compliance, etc. in their short-term at-risk compensation plans. The SWDE plan incorporates operational measures into personal objectives for some plan participants.
 - **Prevalence of Earnings Measures** – Like SWDE's use of EBITDA, earnings based measures (i.e., EPS, EBITDA, etc.) are the most prevalent financial measures used at both the Large Utility Peer Group (45% of peers with a short-term at-risk program) and the Small Utility Peer Group (100% of peers with a short-term at-risk program that disclosed specific financial measures).

Suez Water Delaware – 2016 General Rate Case Target Total Cash Compensation Study

- **Payout Ranges** – A short-term at-risk compensation program eligible participant at SWDE is able to receive a plan payout that ranges from 0-200% of the target opportunity. This payout range is generally consistent with the majority of the peers in both peer groups with maximum payouts typically ranging from 150% to 200% of target. By providing a range of payout outcomes, SWDE is focused on rewarding exceptional performance, but also not providing any payout if defined threshold performance goals are not achieved.
- **Performance Measure Weightings** – SWDE assigns performance measure weightings as follows: 50% individual measures, 30% financial measures and 20% budget measures (combined financial measure weighting of 50%). These weightings place greater emphasis on individual measures as compared to utility industry peers (no other company with a short-term at-risk program in either peer group place a 50% weighting on individual measures), as the utility peers tend to apply a majority weighting on financial measures. This difference of the SWDE plan design is intentional as the Company wants to emphasize the individual goals to place greater focus on performance measures that employees have the greatest "line of sight" to (i.e., more direct ability to influence). In turn, for many plan participants, these individual or personal objectives are focused on operational or customer focused measures and subsequently have more of their at-risk pay tied to these performance measures.

Short-term At-Risk Compensation Program Findings

Overall, we find SWDE's short-term at-risk compensation program to be comparable to and competitive with plan designs of other similarly sized utilities. SWDE's short-term at-risk compensation plan offers employees the opportunity to earn more at-risk compensation based on performance achievement against defined goals and emphasizes alignment with customer oriented measures such as cost control (i.e., budget) and/or personal/individual goals (i.e., operational goals).

Conclusion

In summary, we find SWDE's target total cash compensation program consisting of base salary and short-term at-risk compensation to be comparable to utility peers. In turn, the design of the short-term at-risk compensation plan is comparable to utility peer designs, but overall compensation levels fall below the market 50th percentile. It is critical for SWDE to maintain a market competitive target total cash compensation program in order to compete for talent necessary to successfully deliver high quality, cost effective services to its customers.

APPENDIX A — Large Utility Peer Group

Appendix A – Large Utility Peer Group

Company	Ticker	Revenue (in \$MM) ¹	Market Cap (in \$MM) (as of 12/31/2015) ¹
Avista Corp.	AVA	\$1,509	\$2,204
PNM Resources, Inc.	PNM	\$1,450	\$2,435
Allete, Inc.	ALE	\$1,397	\$2,474
Piedmont Natural Gas Co., Inc.	PNY	\$1,372	\$4,618
Northwestern Corp.	NEW	\$1,202	\$2,613
Questar Corporation	STR	\$1,143	\$3,406
El Paso Electric	EE	\$870	\$1,556
Otter Tail Corp.	OTTR	\$784	\$1,005
Northwest Natural Gas Company	NWN	\$733	\$1,385
Empire District Electric Company	EDE	\$620	\$1,229
MGE Energy, Inc.	MGEE	\$579	\$1,609
25th Percentile		\$759	\$1,471
Median		\$1,143	\$2,204
75th Percentile		\$1,384	\$2,543
Suez North America	Private	\$960	N/A

¹Data source: Standard & Poor's Capital IQ. Company revenue reflects most recent fiscal year-end data.

APPENDIX B — Small Utility Peer Group

Company	Ticker	Revenue (in \$MM)¹	Market Cap (in \$MM) (as of 12/31/2015)¹
Middlesex Water Company	MSEX	\$123	\$430
Gas Natural, Inc.	EGAS	\$120	\$78
Connecticut Water Service	CTWS	\$96	\$425
Delta Natural Gas Company	DGAS	\$83	\$148
Artesian Resources Corporation	ARTNA	\$76	\$246
RGC Resources, Inc.	RGCO	\$68	\$101
The York Water Company	YORW	\$47	\$319

25th Percentile	\$72	\$125
Median	\$83	\$246
75th Percentile	\$108	\$372

Suez North America	Private	\$960	N/A
Suez Water Delaware		\$27	N/A

¹Data source: Standard & Poor's Capital IQ. Company revenue reflects most recent fiscal year-end data

APPENDIX C — Glossary of Terms

Glossary of Terms

At-Risk Compensation – Compensation that is not fixed but is dependent on company and/or individual performance. The degree of performance attainment generally impacts how much compensation is provided

Base Salary – Represents the fixed and recurring part of an individual's compensation

50th Percentile (median) – The figure above and below which 50% of all reported data fall

Target Total Cash Compensation (TCC) – The sum of base salary plus target short-term at-risk compensation opportunity